



PRESQUE ISLE ELECTRIC & GAS CO-OP

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The Single Business Tax and Presque Isle Electric & Gas Co-op

My name is Brian Burns and I am the President and Chief Executive Officer for Presque Isle Electric & Gas Co-op in Onaway. I appreciate the opportunity to submit the following comments regarding the proposed changes to the Single Business Tax and its impact on our cooperative.

Presque Isle Electric & Gas Co-op provides electric and/or natural gas service to over 40,000 member-owners who are located in 9 northern Michigan counties: Alcona, Alpena, Cheboygan, Emmet, Mackinac, Montmorency, Oscoda, Otsego and Presque Isle. Cooperatives are not-for-profit, member-owned and -controlled utilities governed by a board of directors elected from the membership. At the end of each fiscal year, all margins, or profits, earned by the Cooperative are allocated back to the members based on their patronage. Cooperatives are subject to the single business tax, personal property tax, tax on unrelated business income, use tax, sales tax, and we collect and remit sales tax on energy sales to member owners. In essence, cooperatives pay all taxes except federal income tax, which is based on profits.

The rural nature of our service territory presents a major operating challenge. We maintain over 4,000 miles of electric distribution line and over 500 miles of natural gas pipeline to serve approximately 40,000 meters. This results in less than 10 meters per mile of line. This compares to approximately 35 customers per mile for the average investor-owned utility and over 150 customers per mile for some municipal systems.

In 1999, the State of Michigan changed the formula for calculating the Single Business Tax. Prior to the change in 1999, the formula included a deduction for capital acquisitions. The change put in its place an investment tax credit. The change in 1999 also implemented a phase-out of the single business tax, which we supported. However, since the freeze on the SBT phase-out was activated several years ago, it has become apparent that the phase-out on the SBT will not continue.

The Governor's proposal to reduce the SBT rate from 1.9% to 1.2% represents an approximate 37 percent reduction in the Cooperative's single business tax liability. Based on the proposal, it appears the Cooperative's resulting SBT liability will be 37% lower than what we are currently paying. This is a significant reduction in the SBT for our cooperative and a benefit to the member-owners we serve. Therefore, we support the Governor's proposal.

Thank you for the opportunity to present my comments regarding the Single Business Tax and its impact on our cooperative.

Sincerely,

Presque Isle Electric & Gas Co-op



Brian J. Burns
President & CEO

Alcona
Alpena
Cheboygan

Emmet
Mackinac
Montmorency

Oscoda
Otsego
Presque Isle

A Touchstone Energy™ Cooperative

